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UNCLAS SECTION 01 OF 02 VIENNA 000008

SIPDIS

TREASURY FOR OCC/SIEGEL AND OASIA/ICB/MAIER
TREASURY PASS TO FEDERAL RESERVE AND SEC/E. JACOBS
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USDOC FOR 4212/MAC/EUR/OWE/PDACHER
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E.O. 12958: N/A
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SUBJECT: Austria's Economic Recovery Sure but Slow

REF: VIENNA 1269

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¶1. SUMMARY: After the deepest recession in more than 50 years, Austria's economy has started to recover but the upward trajectory will be slow, with set-backs likely. GDP will grow only around 1.5% in 2010 and 2011, insufficient to prevent unemployment rising to 5.2-5.7%. Economists say growth of 2% or more is nowhere on the horizon, meaning little or no improvement in Austria's labor market. Despite its slow growth trajectory, the GoA will have to turn its attention to scaling back large deficits and the burgeoning public debt. END SUMMARY.

Economy Started Growing in Q3/2009

¶2. Austria's Institute for Economic Research (WIFO) and Institute for Advanced Studies (IHS) recently issued revised growth projections for 2009 and 2010 and a first outlook for 2011. The good news is that GDP shrank by "only" 3.4-3.7% in 2009 -- the deepest full-year recession in more than 50 years, but less severe than originally expected and less than the Eurozone average. After four negative quarters, the Austrian economy grew in Q3/2009:

2008	Q3:	-0.7%
	Q4:	-1.3%
2009	Q1:	-2.5%
	Q2:	-0.4%
	Q3:	0.5%
	Q4:	Recovery (at about the Q3 rate)

Modest Growth in 2010 and Beyond

¶3. WIFO and IHS expect growth of 1.3-1.5% in 2010, mainly reflecting Austrian exports to a recovering world economy. Even with a projected real growth of 4-5.5% in 2010, exports will need years to offset the 17% slump of 2009 which brought exports down to their 2005 level. Private consumption, supported by high social transfers and an income tax cut and the main stimulus during the recession, will continue to grow at a modest rate. Investment will be flat and may fall again since existing production capacity will remain underemployed. For 2011, WIFO and IHS expect continued moderate growth of 1.6-1.7% with little upside.

Bumpy Recovery, High Risks, Problem Areas

¶4. Senior economists Karl Aiginger (WIFO Director) and Bernhard Felderer (IHS Director) cautioned against exaggerating the upward trend, predicting that the recovery will be slow, bumpy, and beset with downside risks including financial instability, higher real

interest rates, weak investment, and risks in Greece and some CESEE countries (notably Ukraine, Romania, Bulgaria and the Baltic states). Aiginger, Felderer, and Austrian National Bank (OeNB) Governor Ewald Nowotny say 2% growth is nowhere in sight and that Austria's is on a lower potential growth path for the foreseeable future. This means unemployment will persist at the 2011 level and remain a major economic policy problem alongside budget deficits and public debt.

Underlying Assumptions

15. The institutes based their forecasts on the following assumptions:

	--2010--	--2011--
U.S. economic growth	1.7-2.4%	1.9-2.6%
Eurozone growth	1.1%	1.4-1.7%
EU-27 growth	0.9-1.1%	1.5-1.7%
German growth	1.4-1.5%	1.4-1.5%
oil price (barrel)	\$80-85	\$82-90
USD/Euro	0.67-0.68	0.65-0.70

Consistent with International Forecasts

16. WIFO and IHS projections track with other national and international forecasts:

Austrian economic growth	2009	2010	2011
OeNB	-3.5%	1.2%	1.6%
European Commission	-3.7%	1.1%	1.5%
OECD	-3.8%	0.9%	2.2%
IMF	-3.8%	0.3%	n/a

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Bank Austria	-3.8%	1.3%	n/a
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Labor Market - No Turn-Around in Sight

17. Since mid-2008, some 56,000 jobs have disappeared in Austria despite stimulus measures, labor market programs, and the bank rescue package. With slow economic growth and the return to workforce of some 100,000 workers currently on reduced working hours or in training (not included in current unemployment statistics), the number of unemployed is projected to rise from an annual average of about 260,000 to about 300,000 in 2011. Unemployment rates (Eurostat methodology) is projected to rise from 4.7-5.0% in 2009, to 5.2-5.4% in 2010 and 5.2-5.7% in 2011.

Austria Needs Timetable for Decisive Budget Cuts

18. WIFO and IHS project a total public sector deficit of 4.1-4.2%/GDP in 2009, 5.2-5.3%/GDP in 2010 and 4.8-4.9%/GDP in 2011. The OeNB forecast is more pessimistic: 4.2%/GDP in 2009, 5.3%/GDP in 2010 and 5.4%/GDP in 2011. Total public sector debt will grow to c. 75-80%/GDP by 2011. Senior economists agree on the need to reduce debt after the crisis, but say the economy will be too weak in 2010 to start budget consolidation.

19. Statistical Annex

Projections of Austrian Economic Indicators (percent change from previous year, unless otherwise stated)

	WIFO 2010	IHS 2010	WIFO 2011	IHS 2011
REAL TERMS:				
GDP	1.5	1.3	1.6	1.7
Manufacturing	4.5	n/a	4.0	n/a
Private consumption	0.7	0.6	0.9	1.1

Public consumption	1.0	0.8	0.5	0.5
Investment	-1.0	0.8	2.0	2.0
Exports of goods	4.0	5.5	6.0	7.1
Imports of goods	3.2	4.3	4.8	6.0

Nominal EUR billion equivalent:

GDP	283.1	282.2	291.2	290.9
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OTHER INDICATORS:

GDP deflator	0.7	1.1	1.3	1.3
Consumer prices	1.3	1.1	1.5	1.4
Unemployment rate	5.4	5.2	5.7	5.2
Current account (in percent of GDP)	2.4	n/a	2.7	n/a
Exchange rate (USD/EUR)	0.67	0.68	0.65	0.70

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